SCAN Long Term Care

Financial Statements as of and for the Years
Ended December 31, 2009 and 2008, and
Independent Auditors' Report

SCAN LONG TERM CARE

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
Suite 200
350 South Grand Avenue
Los Angeles, CA 90071-3462
USA

Tel: +1 213 688 0800
Fax: +1 213 688 0100
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
SCAN Long Term Care:

We have audited the accompanying statements of financial position of SCAN Long Term Care (the "Company") as of December 31, 2009 and 2008, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations, changes in its net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

April 26, 2010

SCAN LONG TERM CARE

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$26,918,495	$25,108,326
Premiums and other receivables — net	7,699,491	2,485,353
Prepaid expenses and other current assets	25,308	
Total current assets	34,643,294	27,593,679
PROPERTY AND EQUIPMENT — Net		179,288
TOTAL	$34,643,294	$27,772,967
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 318,116	$ 108,768
Accrued payroll and related benefits	712,022	409,899
Medical claims payable	16,047,960	12,793,222
Due to parent and affiliates	1,636,800	1,466,622
Other current liabilities	4,412,350	1,129,166
Total liabilities	23,127,248	15,907,677
COMMITMENTS AND CONTINGENCIES (Note 7)		
NET ASSETS	11,516,046	11,865,290
TOTAL	$34,643,294	$27,772,967

See notes to financial statements.

SCAN LONG TERM CARE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
NET REVENUES:		
Premiums and reinsurance recoveries	$ 120,111,196	$ 87,188,335
Supplemental premiums	183,916	62,346
Interest income	45,692	365,422
Total net revenues	120,340,804	87,616,103
OPERATING EXPENSES:		
Hospital, physicians, and other services	98,540,076	72,866,544
Medical administration expenses	4,330,647	3,080,899
Marketing, general, and administrative expenses	11,640,037	7,705,559
Depreciation and amortization	179,288	239,046
Total operating expenses	114,690,048	83,892,048
CHANGE IN NET ASSETS BEFORE FUND TRANSFER	5,650,756	3,724,055
FUND TRANSFER TO SCAN HEALTH PLAN ARIZONA	6,000,000	
(DECREASE) INCREASE IN NET ASSETS	(349,244)	3,724,055
NET ASSETS — Beginning of year	11,865,290	8,141,235
NET ASSETS — End of year	$ 11,516,046	$ 11,865,290

See notes to financial statements.

SCAN LONG TERM CARE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (349,244)	$ 3,724,055
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	179,288	239,046
Fund transfer to SCAN Health Plan Arizona	6,000,000	
Changes in operating assets and liabilities:		
Premiums and other receivables — net	(5,214,138)	(1,611,356)
Prepaid expenses and other current assets	(25,308)	84,403
Accounts payable and accrued expenses	209,348	(28,212)
Accrued payroll and related benefits	302,123	(32,724)
Medical claims payable	3,254,738	3,763,646
Due to parent and affiliates	170,178	1,466,622
Other current liabilities	3,283,184	1,129,166
Net cash provided by operating activities	7,810,169	8,734,646
CASH FLOWS FROM FINANCING ACTIVITIES — Fund Transfer to SCAN Health Plan Arizona	(6,000,000)	
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,810,169	8,734,646
CASH AND CASH EQUIVALENTS — Beginning of year	25,108,326	16,373,680
CASH AND CASH EQUIVALENTS — End of year	$26,918,495	$25,108,326

See notes to financial statements.

1. ORGANIZATION

SCAN Long Term Care (the "Company") is an Arizona nonprofit corporation that is located in Phoenix, Arizona. The Company was recognized by the Internal Revenue Service ("IRS") as exempt from federal income taxes in accordance with Internal Revenue Code ("IRC") Section 501(c)(4) on April 24, 2008. SCAN Health Plan Arizona is the sole corporate member of the Company. SCAN Health Plan Arizona is licensed with the Arizona Department of Insurance, and was also recognized by the IRS as a tax-exempt organization described in IRC Section 501(c)(4) on April 24, 2008. SCAN Group is the sole corporate member of SCAN Health Plan Arizona. SCAN Group is also the sole corporate member of SCAN Health Plan, an affiliated entity.

On May 1, 2006, the Arizona Health Care Cost Containment System ("AHCCCS") entered into a contractual agreement with the Company to participate in the Arizona Long Term Care System ("ALTCS") program. ALTCS is the State of Arizona Medicaid program that administers acute care, long-term care, behavioral health, and case management services to frail seniors and the physically disabled. The enrollment of participants in the Company's managed care plan initially began on October 1, 2006; the contract was renewed for the new contract year, which began October 1, 2009, and is limited to residents of Maricopa County in the state of Arizona.

2. REGULATORY REQUIREMENTS AND OPERATIONS

The Company is subject to regulatory oversight by AHCCCS and is required to periodically file financial statements with AHCCCS in accordance with various accounting and reporting practices. At December 31, 2009 and 2008, the Company's minimum capitalization requirement is $4,500,000 for both years as compared to actual capitalization of $11,516,046 and $11,865,290, respectively.

In addition to the minimum capitalization requirements, the Company is required to establish and maintain a performance bond of standard commercial scope issued by a surety company doing business in the state of Arizona, an irrevocable letter of credit, or a cash deposit to AHCCCS for as long as the Company has AHCCCS-related liabilities of $50,000 or more outstanding, or 15 months following the termination date of the contract with AHCCCS, whichever is later, to guarantee (1) payment of the Company's obligations to providers and (2) performance by the Company of its obligations under the contract. As of December 31, 2009 and 2008, SCAN Group maintained a letter of credit with U.S. Bank in the amounts of $7,333,142 and $5,220,761, respectively, on behalf of the Company. No amounts were withdrawn on the letter of credit in 2009 and 2008.

As of December 31, 2009 and 2008, the Company is in compliance with the financial viability standards and performance guidelines as required by the AHCCCS contract. For the contract years ended September 30, 2009 and 2008, the administrative cost percentage was 7% and 8%, respectively, as compared to the performance guideline of not more than 8%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), including Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958, *Not-for-Profit Entities*. FASB ASC 958 establishes standardized external financial reporting by not-for-profit organizations.

Generally accepted accounting principles require not-for-profit organizations to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, based on the existence or absence of donor-imposed restrictions. As of December 31, 2009 and 2008, the Company had no temporarily or permanently restricted net assets or contributions.

Use of Estimates — Management uses estimates and assumptions in preparing the financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the accompanying financial statements.

Cash and Cash Equivalents — Cash and cash equivalents primarily include highly liquid debt instruments purchased with a maturity of three months or less, as well as cash on hand and on-demand bank deposits.

Premiums and Other Receivables — Premium receivables include the capitation and reinsurance receivable due from AHCCCS. Other receivables include amounts due from members, claims due from providers, and pharmacy rebates. The Company establishes an allowance for those accounts that are estimated to have credit risk. Management does not believe that there are significant credit risks associated with the outstanding receivable from AHCCCS. See Note 7 for the associated concentration risk with AHCCCS.

Property and Equipment — Costs associated with the development of internal-use software, especially for the ALTCS program, were capitalized in accordance with FASB ASC 340-40, *Intangibles — Goodwill and Other*, *Internal-Use Software*. Amortization was provided on the straight-line method over three years.

Impairment of Long-Lived Assets — Management reviews long-lived assets to be held and used in the Company's operations for impairment at least annually, or more frequently if circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets are deemed to be impaired if estimated undiscounted future cash flows are less than the carrying amount of the assets. Estimates of expected future cash flows are based on management's best estimates of anticipated operating results over the remaining useful lives of the assets. The Company measures the impairment as the amount by which the carrying amount of the asset exceeds the fair value of the asset. Management does not believe any impairment of its long-lived assets existed in the years ended December 31, 2009 and 2008.

Revenue Recognition — Under the contracts with AHCCCS, revenue is recognized based on the number of eligible members per month, multiplied by the contracted monthly rate. Revenue is recorded in the month in which eligible members are entitled to health care services.

The Company is also paid monthly for all prior-period coverage ("PPC") member months, including partial member months by AHCCCS. PPC revenue is recorded as premiums revenue in the statements of activities and changes in net assets in the month in which eligible members are entitled to health care services.

In the monthly capitation payments from AHCCCS, there is an assumed deduction for the share of cost ("SOC"), which members contribute to the cost of care. After the end of the contract year, AHCCCS compares actual SOC assignment to the assumed SOC in the calculation of the capitation rate, and the difference, if any, will be a receivable from or a payable to AHCCCS. The Company fully reconciles assumed SOC to actual SOC assignment on a monthly basis. As of December 31, 2009, the Company recorded a $249,218 receivable related to this reconciliation, which is included in premiums and other receivables. As of December 31, 2008, the Company recorded a $1,129,166 liability related to this reconciliation, which is included in other current liabilities in the statements of financial position.

In accordance with the AHCCCS contract, the Company performed a medical expense reconciliation based on membership level, claim payments, and encounter claim submissions and concluded negotiations on a settlement with AHCCCS during 2009. This reconciliation process resulted in an amount due to AHCCCS of $2,227,505 for adjustment of premiums for the 2006 contract year, which is included in other current liabilities in the statement of financial position as of December 31, 2009, and reduced premium revenue for the year ended December 31, 2009.

The Company's capitation rate is based in part on the assumed ratio of Home and Community Based Services ("HCBS") months to the total number of member months. At the end of the contract year, AHCCCS compares the actual HCBS member months to the assumed percentage that is used to calculate the dual and nondual full long term care capitation rate for that year. If the Company's actual percentage is different than the assumed percentage, AHCCCS recoups or reimburses the difference between the number of HCBS member months, which exceeded or was less than the assumed percentage. This process resulted in an amount due to AHCCCS of $2,028,493, which is included in other current liabilities in the statement of financial position as of December 31, 2009, and reduced premium revenue for the year ended December 31, 2009.

AHCCCS requires a reconciliation process for the Company as its total PPC medical experience, excluding administrative and nonoperating expenses, is 10% higher or lower than the reimbursement associated with PPC, which is PPC capitation revenue excluding administrative add-on. PPC is the period prior to the member's enrollment, during which a member is eligible for covered services. The time frame is from the effective date of eligibility to the day a member is enrolled with the Company. This reconciliation process resulted in an amount due to AHCCCS of $147,332, which is included in other current liabilities in the statement of financial position as of December 31, 2009, and reduced premium revenue for the year ended December 31, 2009.

Certain estimates are required to record revenues and accounts receivable at net realizable value due to the nature of the membership contracts, specifically eligibility changes in the membership base. These estimates are based on actual historical adjustments to monthly capitation premiums. Inherent in these estimates is the risk that they will have to be adjusted as additional information becomes available. Such adjustments are typically identified and recorded at the point of cash application or account review. Medicaid revenues are subject to audit and retroactive adjustment by AHCCCS. Laws and regulations governing this program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Reinsurance — Reinsurance is a stop-loss program provided by AHCCCS for the partial reimbursement of covered medical services incurred for a member beyond an annual deductible; the deductible is the responsibility of the Company. Reinsurance recoveries of $10,262,903 and $2,683,689 for the years ended December 31, 2009 and 2008, respectively, are included in premiums and reinsurance recoveries in the statements of activities and changes in net assets.

Hospital, Physicians, and Other Services — The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services that have been incurred but not yet reported. The Company estimates the amount of the provision for service costs incurred but not reported ("IBNR") using standard actuarial methodologies based upon historical data, including the period between the date services are rendered and the date claims are received and paid, denied claim activity, expected medical cost inflation, seasonality patterns, and changes in membership. The estimates for service costs IBNR are made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior-period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided.

The Company assesses the profitability of its Medicaid contract for providing health care services when operating results or forecasts indicate probable future losses. The Company establishes a premium deficiency liability in current operations to the extent that the sum of expected future costs, claim adjustment expenses, and maintenance costs exceeds related future premiums under contract. For purposes of determining premium deficiencies, contracts are grouped in a manner consistent with our method of acquiring, servicing, and measuring the profitability of such contracts. Premium deficiencies, if any, are recognized in the period the loss is determined and are classified as hospital, physicians, and other services expenses. Losses recognized as a premium deficiency result in a reduction to expenses in subsequent periods as operating losses under these contracts are charged to the liability previously established. The Company did not record any premium deficiency reserves as of December 31, 2009 and 2008.

While the ultimate amount of claims and expenses is dependent on future developments, management believes the liability for medical claims payable and the medical expenses included in the financial statements are reasonable estimates to cover such costs.

Medical Administration Expenses — Medical administration expenses include salaries, benefits, travel, and training expenses for the case managers and case management supervisors.

Marketing, General, and Administrative Expenses — These expenses include salaries, benefits, premium tax, marketing, other general administrative expenses, and allocations from SCAN Group, SCAN Health Plan, and SCAN Health Plan Arizona.

Income Taxes — The Company is an Arizona nonprofit corporation that filed for recognition by the IRS as exempt from federal income taxes in accordance with IRC Section 501(c)(4) and was approved in April 2008. Management believes the Company is in compliance with the provisions of IRC Section 501(c)(4) and is exempt from federal tax under IRC Section 501(a).

Fair Value of Financial Instruments — The carrying amounts of cash and cash equivalents, premiums and other receivables, accounts payable and accrued expenses, and medical claims payable at December 31, 2009 and 2008, approximate fair value because of the relatively short period of time between origination of the instruments and their expected liquidation.

Recent Accounting Pronouncements — On July 1, 2009, the FASB issued the Accounting Standards Codification ("ASC"). The ASC became the source of authoritative literature under generally accepted accounting principles and is effective for reporting periods ending after September 15, 2009.

In June 2006, the FASB issued FASB ASC 740, *Income Taxes*, as amended. FASB ASC 740 clarifies the accounting for uncertainty in income taxes. FASB ASC 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters, such as derecognition, interest and penalties, and disclosure. The Company adopted FASB ASC 740, as amended, during fiscal year 2009. The Company evaluated its tax positions, including its tax-exempt status and any potential unrelated business income, and determined that adoption of FASB ASC 740 had no impact on the Company's financial position or changes in net assets.

In April 2009, the FASB issued FASB ASC 958, as amended. This standard provides guidance on accounting for a combination of not-for-profit entities and applies to a combination that meets the definition of either a merger of not-for-profit entities or an acquisition by a not-for-profit entity. FASB ASC 958, as amended, establishes principles and requirements for how a not-for-profit entity (a) determines whether a combination is a merger or acquisition, (b) applies the carryover method in accounting for a merger, (c) applies the acquisition method in accounting for an acquisition, and (d) determines what information to disclose with respect to the nature and financial effects of a merger or an acquisition. The provisions of the standard are to be applied prospectively and are effective for the Company in 2010 for mergers and in 2011 for acquisitions. The Company does not anticipate a material impact on its financial position or changes in net assets upon adoption of this standard.

In May 2009, the FASB issued FASB ASC 855, *Subsequent Events*, as amended, to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. Entities are required to disclose the date through which subsequent events were evaluated, as well as the rationale for why that date was selected. FASB ASC 855 is effective for annual periods ended after June 15, 2009. The Company adopted this standard, as amended, during the year ended December 31, 2009, and management has enhanced its disclosures, noting that subsequent events were evaluated through April 26, 2010, the date the financial statements were available for issuance.

4. PREMIUMS AND OTHER RECEIVABLES — NET

Receivables as of December 31, 2009 and 2008, consist of the following:

	2009	2008
Premiums receivable from AHCCCS	$ 249,218	$ 27,342
Reinsurance receivable from AHCCCS	7,422,564	2,411,156
Supplemental premium receivable	16,239	36,623
	7,688,021	2,475,121
Less allowance for doubtful accounts	(13,408)	(16,488)
Premiums receivable — net	7,674,613	2,458,633
Pharmacy rebates	22,000	18,000
Premium taxes and other receivable	2,878	8,720
Other receivables — net	24,878	26,720
Total	$7,699,491	$2,485,353

5. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2009 and 2008, consist of the following:

	2009	2008
Computer software	$ 717,141	$ 717,141
Less accumulated depreciation	(717,141)	(537,853)
Total	$ -	$ 179,288

6. MEDICAL CLAIMS PAYABLE

Activity in medical claims payable as of December 31, 2009 and 2008, is as follows:

	2009	2008
Beginning balance	$ 12,793,222	$ 9,029,576
Incurred related to:		
Current period	99,017,555	74,351,033
Prior periods	(477,479)	(547,411)
	98,540,076	73,803,622
Paid related to:		
Current period	(83,078,708)	(61,691,562)
Prior periods	(12,206,630)	(8,348,414)
	(95,285,338)	(70,039,976)
Total	$ 16,047,960	$ 12,793,222

As a result of payments made in the current year related to prior years' estimated claims, the provision for medical claims payable and claim adjustment expense decreased by $477,479 and $547,411 for the years ended December 31, 2009 and 2008, respectively, due to a lower-than-anticipated settlement of claims.

Liabilities for unpaid claims and claim expenses are estimates of payments to be made under health coverage for reported but unpaid claims and for incurred but not yet reported claims. Management develops these estimates using actuarial methods based upon historical data for payment patterns, cost trends, product mix, seasonality, utilization of health care services, and other relevant factors.

7. COMMITMENTS AND CONTINGENCIES

Credit Concentration — Substantially, all of operating revenues for the years ended December 31, 2009 and 2008, result from contracts with AHCCCS. AHCCCS's cancelation of its contract with the Company or nonpayment of amounts due to the Company would have a material adverse effect on the Company's financial position and changes in net assets.

Medical Claims Risk — The Company is exposed to certain medical claims risk due to the nature of its operations. The majority of medical services provided for the Company's members are performed under contract. However, the Company regularly incurs costs for noncontracted services from providers. In addition, in the event of default or financial difficulties with certain providers, the Company could be liable for outstanding claims, which, if substantial, could have a material adverse effect on the Company's financial position and changes in net assets.

Cost Containment Measures — Both government and private pay sources have instituted cost containment measures designed to limit payments made to providers of health care services, and there can be no assurance that future measures designed to limit payments made to providers will not adversely affect the Company's financial position.

Professional Liability Insurance — The Company carries professional liability insurance with coverage of $5,000,000 per occurrence and in aggregate in any one year. In the ordinary course of business, the Company is subject to the claims of its members arising out of decisions to restrict treatment or to restrict reimbursement for certain services.

Regulatory Proceedings and Litigation — In the ordinary course of our business operations, the Company is also subject to periodic reviews by various regulatory agencies with respect to the Company's compliance with a wide variety of rules and regulations applicable to the Company's business, which may result in the assessment of regulatory fines or penalties. Additionally, the Company is also party to various legal actions arising in the normal course of business. These other regulatory and legal proceedings are subject to many uncertainties, and, given their complexity and scope, their final outcome cannot be predicted at this time. However, after taking into consideration legal counsel's evaluation of such legal and regulatory actions, management believes the outcome of these matters will not have a material adverse effect on the Company's financial position or changes in net assets.

Health Reform — On March 23, 2010, President Obama signed the Patient Protection and Affordable Care Act into law, and then on March 30, 2010, President Obama signed into law the Health Care and Education Affordability Reconciliation Act of 2010 (collectively, "health insurance reform"). The Company is evaluating the effect that health insurance reform may have on its financial position and changes in net assets.

8. TRANSACTIONS WITH SCAN GROUP, SCAN HEALTH PLAN, AND SCAN HEALTH PLAN ARIZONA

The Company made a $6 million fund transfer to SCAN Health Plan Arizona on December 10, 2009, which was approved by the Board of Directors.

The Company does not have any employees and receives all of its support from affiliates. SCAN Group and SCAN Health Plan provide administrative services in support of the operations of the Company and SCAN Health Plan Arizona. The Company and SCAN Health Plan Arizona have agreed to reimburse SCAN Group and SCAN Health Plan for providing and arranging legal, accounting and financial, information technology, and other services. The amount of the expenses to be reimbursed to SCAN Group and SCAN Health Plan is allocated to the Company based on different allocation methods by each department of SCAN Group and SCAN Health Plan. The charges for these services to the Company totaled $4,034,016 and $1,879,366 in 2009 and 2008, respectively, and are included in administrative expenses in the statements of activities and changes in net assets.

As of December 31, 2009, the Company recorded payables due to SCAN Group, SCAN Health Plan, and SCAN Health Plan Arizona of $186,723, $363,097, and $1,086,980, respectively, which are included in due to parent and affiliates in the statements of financial position. As of December 31, 2008, the Company recorded payables due to SCAN Health Plan and SCAN Health Plan Arizona of $11,133 and $1,455,489, respectively, which are included in due to parent and affiliates in the statements of financial position. These amounts represent balances due for costs incurred in the ordinary course of business by or on behalf of the Company. The amounts were settled through intercompany settlement within 30 days of year-end.

9. SUBSEQUENT EVENTS

The Company received a letter, dated March 30, 2010, from AHCCCS indicating that AHCCCS was considering not renewing the current ALTCS contract with the Company when it is due for renewal on October 1, 2010. The Company responded on April 8, 2010, to AHCCCS' concerns regarding the Company's contractual performance. The Company received a response from AHCCCS in a letter dated April 16, 2010, indicating that AHCCCS would renew the Company's contract for the contract year beginning October 1, 2010. However, AHCCCS will suspend new enrollment under the Company's contract for a minimum of three months beginning June 1, 2010. In order for the suspension of enrollment to be lifted, the Company is required to demonstrate improvement in contractual performance in the areas identified by AHCCCS.

Management is in the process of implementing corrective action plans to address the contractual performance concerns raised by AHCCCS and intends to demonstrate improvement in contractual performance to achieve the lifting of the suspension on new enrollment to the Company, but can give no assurance that this outcome will be achieved. The ALTCS contract represents substantially all of the net revenues of the Company.

* * * * * *